

Gaming Market Report

Introduction

In each year since 1999, the Commission has used this section to articulate its philosophy for managing Missouri's commercial gaming market. Missouri statutes assign the Commission responsibility for determining the number, location and type of riverboat casinos.¹ The statute also authorizes the Commission to issue licenses to applicants that best serve the interests of Missouri.² During this period, the Commission has warned licensees, with progressive emphasis, that their failure to maintain a competitive facility will cause the Commission to consider proposals from other applicants in the market that are willing to develop facilities capable of maximizing the benefits a gaming license provides.

Realizing that downtown St. Louis lacked a casino development befitting a city of its size and stature, St. Louis Mayor Francis Slay appeared before the Commission in May 2002 to request that it consider applications for new developments that would offer a destination attraction for downtown St. Louis.³ Mayor Slay's comments and the city's subsequent RFP process attracted two high quality proposals from Isle of Capri and Pinnacle Entertainment. While potential to recapture market share in downtown St. Louis currently being lost to Illinois was evident from both proposals, the Commission chose Pinnacle Entertainment's multi-faceted entertainment complex as a priority for investigation.

The Commission also chose Pinnacle's companion project at the beleaguered National Lead site in Lemay as a priority for investigation. While this project is challenging, the Commission ultimately viewed it as a rare opportunity to pull the Lemay area community out of a 20-year economic decline.⁴ The project faces many obstacles in order to gain suitable access, thus the Commission imposed strict conditions on the priority selection. To date, Pinnacle has been able to make significant progress in obtaining the permits and approvals to build a road to the site. The September 1, 2005 due date for the first set of conditions will occur while this report is being printed. The Commission will evaluate the company's progress at that time and continue to keep you informed of developments in the regulatory process.



¹ Section 313.812.1, RSMo

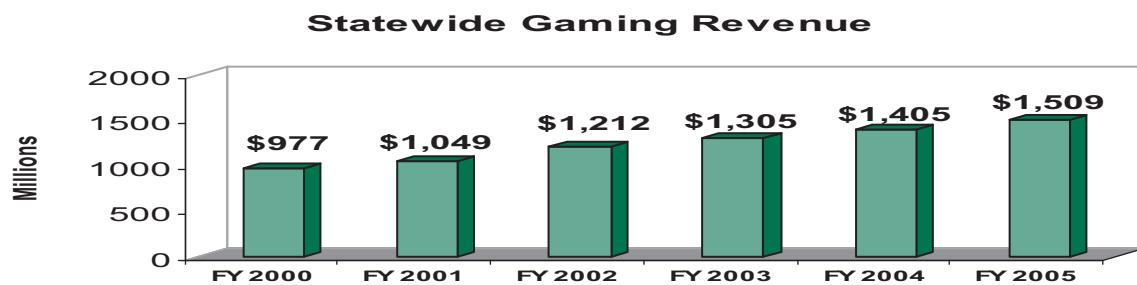
² Section 313.805(1), RSMo.

³ The following is an excerpt from Mayor Slay's testimony to the Commission on May 23, 2002: "Downtown is the public face to our city and indeed to our region. It is the biggest center of employment, the home of our sports teams, the place that is St. Louis. It is even now the primary center of our metropolitan area in image and reality. We believe that the unique combination of attractions, convention center, the major league sports venues, the historic Laclede's Landing area, the Gateway Arch and growing Washington Avenue loft district make downtown a magnet for tourists throughout the region, across the nation and around the world. Gaming should be a centerpiece of that effort. We believe the St. Louis Riverfront is the best site in the state for a first-rate gaming facility with a hotel, quality restaurants and other entertainment attractions, but we do not have that on our riverfront right now. In comparison with other metropolitan areas, casino projects throughout the state, even in comparison with projects in much smaller areas, our location underachieves. In short, we want a first-rate gaming facility with all the amenities that would make it a destination attraction. We are not in the City of St. Louis casino licensing experts. That is your job. The City of St. Louis will work with you, the President and anyone else to help reach the potential that I know we can reach. The City of St. Louis and State of Missouri want and deserve something much better. We are eager to work with developers that ensure that the area north of Laclede's Landing becomes one of the premiere gaming sites and one of the premiere mixed use developments in the United States."

Statewide Market

Statewide gaming revenue increased approximately 8% to just over \$1.5 billion in FY 2005, matching the growth rate from the prior year. The gain reflects a slight increase in patron volume combined with a 7% increase in Win Per Patron (WPP). WPP is the amount the casino wins, on average, per each patron visit. The increase in WPP primarily reflects a higher slot hold percentage along with a higher table win percentage, continuing the trend from previous years. The following table offers a statewide statistical comparison of fiscal years 2004 and 2005.

	FY 2005	FY 2004	% Change
Gaming Revenue	\$ 1,509,325,000	\$ 1,404,576,000	7.5%
Patrons	25,146,000	24,915,000	0.9%
Win Per Patron	\$ 60.02	\$ 56.37	6.5%



Based on current statewide trends that show patron volume leveling off and gaming revenue and WPP levels on the rise (see following graphs), the Commission expects moderate growth to continue into the coming fiscal year with new technologies and marketing trends benefiting casino revenues.

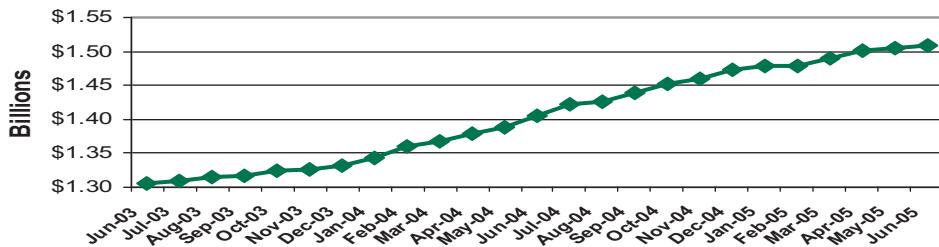
⁴ St. Louis County has engaged in numerous attempts to market the property since it acquired it in the mid-1980's. Such attempts have involved four different county administrations. There have been numerous Requests for Proposals, direct marketing contacts with developers, as well as a variety of end-users. In addition, there have been many attempts to garner the resources to clean up the contamination and flood-proof the site but none of these have proven successful. The initial plan was to use it for a port/industrial complex but that was deemed infeasible many years ago due to excess capacity in the broader port of St. Louis market and the attendant costs of flood proofing and environmental cleanup.



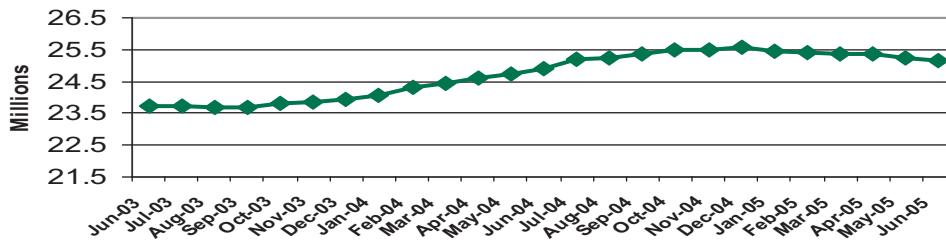
Most recently, an RFP that was sent out two years ago resulted in the only qualified proposal being from the Great Rivers Greenway Project for a park and open space use that would not have to deal with the flooding problems and would avoid the environmental issue by capping the PCBs. In order to accommodate Great Rivers Greenway's interest in developing a regional trail system, Pinnacle has offered them the right of first refusal to develop the nature/biking trail going along the river side of the project.

24

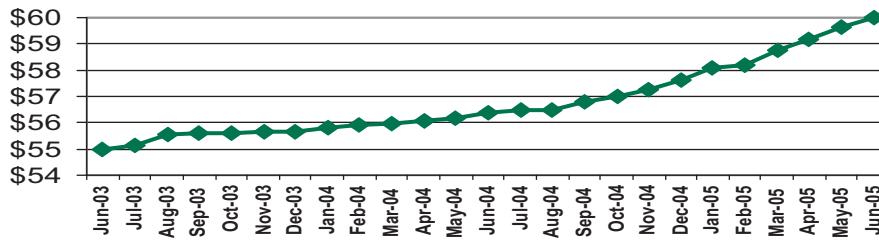
Gaming Revenue Trend (trailing twelve months)



Patron Volume Trend (trailing twelve months)



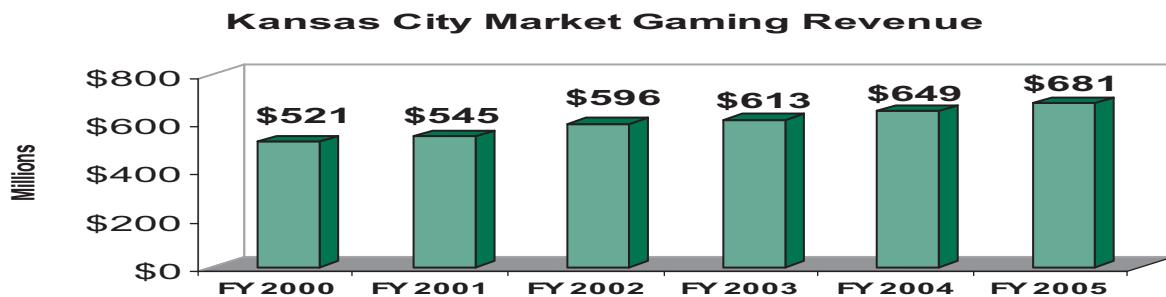
WPP Trend (trailing twelve months)



Kansas City Market

The Kansas City market posted gaming revenue of \$681 million for the fiscal year, a 5% increase over the prior year. The gain reflects an increase in patron volume as the momentum from the previous year expansions at many of the market's casinos is still carrying forward. The Kansas City market will likely report moderate growth in the coming fiscal year as more expansion plans are in the works for Argosy and Harrah's casinos.

	FY 2005	FY 2004	% Change
Gaming Revenue	\$ 680,482,000	\$ 649,317,000	4.8%
Patrons	11,666,000	11,412,000	2.2%
Win Per Patron	\$ 58.33	\$ 56.90	2.5%



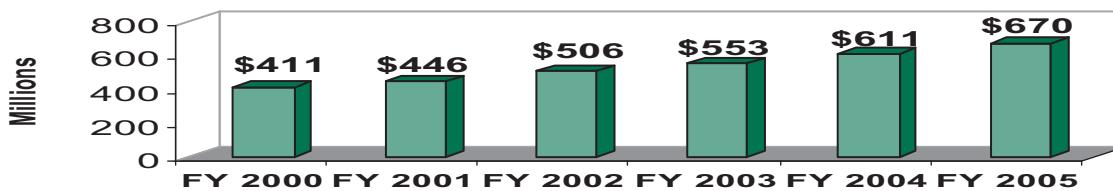
St. Louis Market

The Missouri boats in the St. Louis market had another good year as gaming revenue increased 10% over the prior year, to \$670 million. The gain primarily reflects the increase in revenue despite a slight decrease in patron volume on a high WPP due primarily to the \$85 million expansion at Harrah's. This expansion included several new restaurants and a 211 room hotel tower. The St. Louis market will likely report steady growth in the coming year as the momentum carries from the added attractions at Harrah's.

The Illinois boats in the St. Louis market posted gaming revenue of \$276 million, a 3% increase over the prior year. They captured 29% of the gaming revenue in the St. Louis market, which is only a slight decrease from the previous year, but continues to indicate that the more superior facilities on the Missouri side are capturing the St. Louis market.

	FY 2005	FY 2004	% Change
Missouri Boats			
Gaming Revenue	\$ 670,020,000	\$ 611,262,000	9.6%
Patrons	10,938,000	11,040,000	-0.9%
Win Per Patron	\$ 61.26	\$ 55.37	10.6%
Illinois Boats			
Gaming Revenue	\$ 276,172,000	\$ 267,119,000	3.4%
Patrons	3,548,000	3,534,000	0.4%
Win Per Patron	\$ 77.84	\$ 75.59	3.0%

St. Louis Market Gaming Revenue
Missouri Boats Only



Other Markets

In the out-state markets, gaming revenue increased a strong 10% to \$159 million. The gain primarily reflects the 12% increase in St. Joseph and the 13% increase in LaGrange due to Herbst Gaming, Inc. acquiring these properties from Grace Entertainment. New technologies and marketing strategies have increased the revenues at both facilities in comparison to the previous years. Also, new technologies have aided the revenue growth in Caruthersville by 18% over the prior year. The out-state markets will likely continue to post strong to moderate growth in the coming fiscal year as they continue to benefit from the new technology used.

	FY 2005	FY 2004	% Change
Gaming Revenue	\$ 158,822,000	\$ 143,996,000	10.3%
Patrons	2,542,000	2,464,000	3.2%
Win Per Patron	\$ 62.48	\$ 58.44	6.9%



Other Market Gaming Revenue

